

BANK INDONESIA REGULATION  
NUMBER: 9/1/PBI/2007  
CONCERNING  
THE RATING SYSTEM FOR COMMERCIAL BANKS BASED ON SHARIA  
PRINCIPLES

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas the soundness of a bank based on sharia principles is of interest to all stakeholders, including the owners and management of the bank, the public using bank services and Bank Indonesia as the bank supervisory authority;
  - b. whereas the proliferation of sharia banking products and services has increased the business complexity and risk profile for banks based on sharia principles;
  - c. whereas changes in internationally adopted methods for assessment of bank condition will affect the existing Bank Rating system in force for banks based on sharia principles;
  - d. now therefore it is deemed necessary to enact new provisions concerning the Rating System for Commercial Banks based on sharia principles in a Bank Indonesia Regulation;

- In view of:
1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472), as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED:

To enact:       THE BANK INDONESIA REGULATION CONCERNING THE  
RATING SYSTEM FOR COMMERCIAL BANKS BASED ON  
SHARIA PRINCIPLES

## CHAPTER I GENERAL PROVISIONS

### Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. “Bank” is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting business based on sharia principles.
2. “Sharia Division” is a unit at the head office of a commercial bank conducting conventional business that functions as head office of the Sharia Branch Offices and/or Sharia Units, or a unit of a Branch Office of a Foreign Bank conducting conventional business that functions as head office of the Sharia Sub-Branch Offices and/or Sharia Units.
3. “Branch Office of Foreign Bank” is a branch office of a bank domiciled outside Indonesia.
4. “Board of Directors”:

a. for ...

- a. for a bank legally incorporated as a Limited Liability Company is a board of directors as referred to in Article 1 number 4 of Act Number 1 of 1995 concerning Limited Liability Companies;
  - b. for a bank legally incorporated as a Regional Government Enterprise is a board of directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
  - c. for a bank legally incorporated as a Cooperative is an executive board as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives.
5. “Board of Commissioners”:
- a. for a bank legally incorporated as a Limited Liability Company is a board of commissioners as referred to in Article 1 number 5 of Act Number 1 of 1995 concerning Limited Liability Companies;
  - b. for a bank legally incorporated as a Regional Government Enterprise is a board of supervisors as referred to in Article 19 of Act Number 5 of 1962 concerning Regional Government Enterprises;
  - c. for a bank legally incorporated as a Cooperative is board of supervisors as referred to in Article 38 of Act Number 25 of 1992 concerning Cooperatives.
6. “Bank Rating” is the qualitative result of assessment of various aspects affecting the condition or performance of a Bank or Sharia Division, conducted by means of:
- a. Quantitative Assessment and Qualitative Assessment of capital, asset quality, earnings, liquidity and sensitivity to market risk; and
  - b. Qualitative Assessment of management.
7. “Composite Rating” is the final rating result obtained in the Bank Rating process.
8. “Quantitative Rating” is rating of the position, developments and projections of the financial ratios of the Bank or Sharia Division.
9. “Qualitative Rating” is rating of the factors supporting the results of Quantitative Rating, application of risk management and compliance of the Bank or Sharia Division.

10. "Risk Management" is a series of procedures and methods used to identify, measure, monitor and control risks arising from the business of a Bank or Sharia Division.
11. "Financial Factor" is one of determinant factor in Bank Rating that comprises capital, asset quality, earnings, liquidity or sensitivity to market risk.
12. "Financial Factor Rating" is the final rating result generated by assessment of Financial Factors.

#### Article 2

- (1) Banks are required to conduct business on the basis of prudential principles and sharia principles with the objective of maintaining or improving Bank Rating.
- (2) The Board of Commissioners and Board of Directors of a Bank are required to monitor and take the necessary measures for Bank Rating compliance as referred to in paragraph (1).

#### Article 3

The scope of Bank Rating encompasses assessment of the following factors:

- a. capital;
- b. asset quality;
- c. management;
- d. earnings;
- e. liquidity; and
- f. sensitivity to market risk.

#### Article 4

- (1) Rating of capital as referred to Article 3 letter a encompasses rating of the following components:
  - a. capital adequacy and capital projection (future trend) and the ability of capital to cover risks;

b. ability ...

- b. ability to meet the need for additional capital from earnings, capital plan to support business expansion, access to sources of capital and financial performance of shareholders.
- (2) Rating of asset quality as referred to Article 3 letter b encompasses rating of the following components:
- a. earning assets quality, developments in quality of problem earning assets, concentrations of risk exposures and risk exposures to core customers.
  - b. adequacy of policy and procedures, internal review system, documentation system and performance in management of problem earning assets.
- (3) Rating of management as referred to Article 3 letter c encompasses rating of the following components:
- a. quality of general management, implementation of risk management and particularly management understanding of the risks to the Bank or Sharia Division;
  - b. compliance of the Bank or Sharia Division with applicable regulations, commitments to Bank Indonesia and other parties, and compliance with sharia principles, including public education and social responsibility.
- (4) Rating of earnings as referred to Article 3 letter d encompasses rating of the following components:
- a. earnings capacity, ability of earnings to support expansion and cover risks and level of efficiency;
  - b. income diversification, including the ability of the bank to generate fee-based income, diversification of fund placements and application of accounting principles in recognition of revenues and expenses.
- (5) Rating of liquidity as referred to Article 3 letter e encompasses rating of the following components:
- a. ability to meet short-term liabilities, potential of maturity mismatch and concentration of funding sources;

- b. adequacy of liquidity management policy, access to funding sources and stability of funds mobilization.
- (6) Rating of sensitivity to market risk as referred to Article 3 letter f encompasses rating of the following components:
  - a. adequacy of capital held by the Bank or Sharia Division for covering potential loss incurred from adverse movement in the exchange rate;
  - b. adequacy of application of market risk management.

#### Article 5

- (1) Rating of the determinant components or financial ratios for capital, asset quality, earnings, liquidity and sensitivity to market risk shall be calculated on a quantitative basis.
- (2) Rating of the determinant components for management shall be performed by analysis taking into account supporting indicators and judgement.
- (3) The rating scale for each of the ratios referred to in paragraph (1) consists of rating 1, rating 2, rating 3, rating 4 and rating 5.
- (4) The rating scale for each of the components referred to in paragraph (2) consists of rating A, rating B, rating C and rating D.

#### Article 6

- (1) Based on the rating of each ratio and component referred to in Article 5, a rating shall be determined for each factor.
- (2) Rating of capital, asset quality, earnings, liquidity and sensitivity to market risk shall be determined by analysis of supporting indicators and/or judgement concerning:
  - a. rating of key ratios; and
  - b. rating of supporting ratios.

- (3) Rating of the management factor shall take account of judgement of the rating of determinant components.

#### Article 7

- (1) For rating of capital, asset quality, earnings, liquidity and sensitivity to market risk as referred to in Article 6 paragraph (2), 5 (five) ratings are prescribed as follows:
- a. rating 1,
  - b. rating 2,
  - c. rating 3,
  - d. rating 4, or
  - e. rating 5.
- (2) For rating of the management factor, 4 (four) ratings are prescribed as follows:
- a. Management rating A, indicating that the bank operates with the proper good corporate governance, with high quality of risk management, and high compliance with regulations and sharia principles;
  - b. Management rating B, indicating that the bank operates with adequate quality of good corporate governance, and with adequate quality of risk management, and adequate compliance with regulations and sharia principles;
  - c. Management rating C, indicating that the bank operates with unsatisfactory corporate governance, with low quality of risk management and/or poor compliance with regulations and/or sharia principles; or
  - d. Management rating D, indicating that the bank operates with poor corporate governance, with extremely low quality of risk management and/or very poor compliance with regulations and/or sharia principles.

#### Article 8

- (1) Financial Factor Rating shall be determined on the basis of the rating of the factors referred to in Article 7 paragraph (1).

(2) The ...

- (2) The Financial Factor Rating process shall operate using weightings of rating scores for capital, asset quality, earnings, liquidity and sensitivity to market risk.
- (3) Financial Factor Rating is defined as follows:
  - a. Financial Factor Rating 1, indicating that the Bank or Sharia Division is in excellent financial condition for business expansion and able to anticipate changes in economic conditions and the financial industry.
  - b. Financial Factor Rating 2, indicating that the Bank or Sharia Division is in good financial condition for business expansion and able to anticipate changes in economic conditions and the financial industry.
  - c. Financial Factor Rating 3, indicating that the Bank or Sharia Division is in fairly good financial condition for business expansion but still susceptible to/has weaknesses in anticipating risks caused by changes in economic conditions and the financial industry.
  - d. Financial Factor Rating 4, indicating that the Bank or Sharia Division is in poor financial condition and sensitive to changes in economic conditions and the financial industry.
  - e. Financial Factor Rating 5, indicating that the Bank or Sharia Division is in extremely poor financial condition and highly sensitive to adverse changes in economic conditions and the financial industry.

#### Article 9

- (1) Composite Rating shall be determined on the basis of the Financial Factor Ratings and rating of management factor.
- (2) Composite Rating is defined as follows:
  - a. Composite Rating 1, indicating that the Bank and Sharia Division is in excellent condition and able to withstand the effect of negative changes in economic conditions and the financial industry.

b. Composite ...



- b. Composite Rating 2, indicating that the Bank and Sharia Division is in sound condition and able to withstand the effect of negative changes in economic conditions and the financial industry, notwithstanding the Bank and Sharia Division still has minor weaknesses that can be quickly resolved through routine measures.
  - c. Composite Rating 3, indicating that the Bank and Sharia Division is in fairly sound condition but has weaknesses that may lead to deterioration in composite rating if the Bank and Sharia Division does not take immediate corrective actions.
  - d. Composite Rating 4, indicating that the Bank and Sharia Division is in poor condition and sensitive to impact from negative changes in economic conditions and the financial industry, or that the Bank and Sharia Division has serious financial weaknesses or a combination of unsatisfactory factors that if not addressed with effective corrective actions could potentially lead to difficulties endangering its survival.
  - e. Composite Rating 5, indicating that the Bank and Sharia Division is highly sensitive to impact from negative changes in economic conditions and the financial industry and experiencing difficulties endangering its survival.
- (3) The assessment process for the Composite Rating shall take place by aggregation of the Financial Factor Ratings and the rating of management factor, using a conversion table that also takes account of supporting indicators and judgement.

## CHAPTER II

### RATING MECHANISM AND CORRECTIVE ACTIONS

#### Article 10

Banks are required to conduct Bank Rating in accordance with this Bank Indonesia Regulation on a quarterly basis for the positions at the end of March, June, September and December.

Article 11 ...

#### Article 11

- (1) For the purposes of bank supervision, Bank Indonesia shall conduct Bank Rating on a quarterly basis for the positions at the end of March, June, September and December.
- (2) Bank Rating shall be conducted on the basis of examination, the periodic reports submitted by the bank and/or other information in the public domain, such as assessment by another competent authority or competent agency.
- (3) In order to obtain a rating result commensurate to the actual condition of the bank, Bank Indonesia may request the bank to provide information and clarifications.
- (4) Bank Indonesia may make adjustments to any Bank Rating if it becomes informed of data and information on any subsequent events that significantly affect the condition of the bank.
- (5) In the event of any differences in the result of Bank Rating conducted by Bank Indonesia and the result of Bank Rating conducted by the bank, the result of the Bank Rating conducted by Bank Indonesia shall prevail.
- (6) If necessary, Bank Indonesia may conduct Bank Rating at other times than as referred to in paragraph (1).

#### Article 12

- (1) On the basis of rating as referred to in Article 11, Bank Indonesia may order the Board of Directors, Board of Commissioners and/or shareholders to submit an action plan stating the corrective actions that must be implemented by the bank in regard to any significant problems, including timeframes for resolution over specific period.
- (2) If necessary, Bank Indonesia may request the bank to make adjustments to an action plan as referred to in paragraph (1).

#### Article 13

- (1) Banks are required to submit a progress report on an action plan as referred to in Article 12 paragraph (1) no later than 10 (ten) working days after implementation of the action plan.
- (2) If the case of phased implementation of an action plan, the bank shall be required to report the phases of implementation of the action plan no later than 10 (ten) working days after completion of each phase of the action plan.

#### Article 14

If necessary, Bank Indonesia shall conduct special examination of the results of an action plan as referred to in Article 13.

#### Article 15

If necessary, when rating a Sharia Division of a Branch Office of a Foreign Bank, Bank Indonesia may request data or information on the rating of the head office of the foreign bank.

### CHAPTER III

#### SANCTIONS

#### Article 16

Any Bank violating the provisions stipulated in Article 2 and Article 10, Article 12 and Article 13 shall be liable to administrative sanctions as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, comprising the following:

- a. written warning;
- b. freezing of specific business lines; and/or
- c. inclusion of the management and/or shareholders of the bank on the list of persons prohibited from becoming shareholders and managers of banks.

## CHAPTER IV TRANSITIONAL PROVISIONS

### Article 17

The Bank Rating system as referred to in this Bank Indonesia Regulation shall be implemented for assessment of data for December 2007.

### Article 18

In preparation for effective implementation of the Bank Rating system, banks must conduct trial Bank Rating as referred to in Article 10 commencing from the position at September 2007.

### Article 19

Prior to the implementation of the Bank Rating system as referred to in Article 17, Bank Rating shall be conducted by Bank Indonesia on the basis of:

- a. Decree of the Board of Managing Directors of Bank Indonesia Number 30/11/KEP/DIR dated 30 April 1997 concerning the Rating Procedure for Commercial Banks;
- b. Decree of the Board of Managing Directors of Bank Indonesia Number 30/277/KEP/DIR dated 19 March 1998 concerning Amendment to Decree of the Board of Managing Directors of Bank Indonesia Number 30/11/KEP/DIR dated 30 April 1997 concerning the Rating Procedure for Commercial Banks.

## CHAPTER V CONCLUDING PROVISIONS

### Article 20

Further provisions necessary for the implementation of this Bank Indonesia Regulation shall be stipulated in a Circular Letter of Bank Indonesia.

#### Article 21

With the enactment of this Bank Indonesia Regulation:

- a. Decree of the Board of Managing Directors of Bank Indonesia Number 23/81/KEP/DIR dated 28 February 1991 concerning the Rating Procedure for Commercial Banks;
- b. Decree of the Board of Managing Directors of Bank Indonesia Number 30/11/KEP/DIR dated 30 April 1997 concerning the Rating Procedure for Commercial Banks;
- b. Decree of the Board of Managing Directors of Bank Indonesia Number 30/277/KEP/DIR dated 19 March 1998 concerning Amendment to Decree of the Board of Managing Directors of Bank Indonesia Number 30/11/KEP/DIR dated 30 April 1997 concerning the Rating Procedure for Commercial Banks;
- d. Circular Letter of Bank Indonesia No. 31/9/UPPB dated 12 November 1998 concerning Amendment to Decree of the Board of Managing Directors of Bank Indonesia No. 26/20/KEP/Dir dated 29 May 1993 concerning the Minimum Capital Adequacy Requirement,

are revoked and declared no longer valid commencing from the Bank Rating for the position at end of December 2007.

#### Article 22

This Bank Indonesia Regulation shall come into force on the date of its enactment.

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Enacted in Jakarta

Dated 24 January 2007

THE GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

ELUCIDATION  
TO  
BANK INDONESIA REGULATION  
NUMBER: 9/1/PBI/2007  
CONCERNING  
THE RATING SYSTEM FOR COMMERCIAL BANKS BASED ON SHARIA  
PRINCIPLES

GENERAL REVIEW

The soundness or financial and non-financial condition of a bank based on sharia principles is of interest to all stakeholders, including owners, management of the bank, the public using bank services, Bank Indonesia as the bank supervisory authority and other parties. This information on the condition of the bank can be used by these stakeholders to evaluate the performance of the bank in application of prudential principles, compliance with sharia principles, regulatory compliance and risk management.

The proliferation of increasingly complex and diversified sharia banking products and services will increase the level of risk exposure for banks based on sharia principles. Changes in risk exposures and application of risk management will influence the risk profile, which in turn will affect the overall condition of a bank based on sharia principles.

Differences exist between assessment for Bank Rating and assessment of management risk, but the two also intersect. The rating includes inherent risks in bank activities that constitute part of the risk management assessment process.

The dynamic nature of advances in methodology for assessing bank condition has led to the development of new provisions concerning the Bank Rating system for banks based on sharia principles to obtain a view of current and future conditions. The new provisions on rating of banks based on sharia principles have been developed

through ...

through qualitative and quantitative approaches and include the addition of judgement factors.

For banks, the final outcome of the rating of a bank's condition can be used as a means to determine future business strategy, while for Bank Indonesia, it is used among others as a means for determining and implementing the strategy for supervision of Banks and Sharia Divisions.

To enable banks based on sharia principles to apply the Bank Rating system set forth in this Bank Indonesia Regulation within the stipulated timeframe, it is necessary for the banks to take preparatory measures for application of the system.

## ARTICLE BY ARTICLE

### Article 1

Self-explanatory.

### Article 2

#### Paragraph (1)

Self-explanatory.

#### Paragraph (2)

Self-explanatory.

### Article 3

#### Letter a

Rating of capital is rating of the adequacy of the capital held by the Bank or Sharia Division for covering current risk exposures and anticipating future risk exposures.

#### Letter b

Rating of asset quality is the rating of the condition of the Bank or Sharia Division assets and adequacy of risk management in financing.

#### Letter c



Rating of management is the rating of the managerial capacity of the bank management in conducting its business, adequacy of risk management and compliance of the bank with applicable regulatory provisions and commitments made to Bank Indonesia and/or other parties.

Letter d

Rating of earnings is the rating of the condition and capacity of the Bank or Sharia Division to generate earnings to sustain operations and capital.

Letter e

Rating of liquidity is the rating of bank ability to maintain an adequate level of liquidity.

Letter f

Rating of sensitivity to market risk is rating of the adequacy of the capital of the Bank or Sharia Division to cover risks arising from movement in the exchange rate.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Letter a

Bank management understanding of the risks to the bank can be assessed on the basis of supervisor observations of statements by management and bank performance.

Letter b

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5) ...

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

Article 5

Paragraph (1)

Quantitative calculation of inherent risk shall be based on the calculation of each financial ratio used to determine a component.

Paragraph (2)

Judgement is a conclusion reached objectively and independently on the basis of analysis supported by adequate and properly documented facts, data and information to obtain a rating that reflects the true and actual condition of the bank.

Paragraph (3)

A lower number on the rating scale indicates a higher level for the condition of the bank.

Paragraph (4)

Rating A reflects the condition of most compliance and rating D reflects the condition of least compliance.

Article 6

Paragraph (1)

Self-explanatory.

Paragraph (2)

“Key ratios” are defined as the determinant ratios for factor rating scores.

“Supporting ratios” are defined as ratios adding to or deducting from the factor rating scores.

Paragraph (3)

Self-explanatory.

## Article 7

### Paragraph (1)

A lower number on the rating scale indicates a higher level for the condition of the bank.

### Paragraph (2)

#### Letter a

With this rating, the bank has good corporate governance, efficient and effective risk management and strong compliance with prudential regulations and sharia principles.

#### Letter b

With this rating, the bank has adequate corporate governance, adequately efficient and effective risk management and adequate compliance with prudential regulations and sharia principles.

#### Letter c

With this rating, the bank has unsatisfactory corporate governance, inadequately efficient and effective risk management and poor compliance with prudential regulations and sharia principles.

#### Letter d

With this rating, the bank has poor corporate governance, inefficient and ineffective risk management and extremely poor compliance with prudential regulations and sharia principles.

## Article 8

### Paragraph (1)

Self-explanatory.

### Paragraph (2)

Self-explanatory.

Paragraph (3) ...

Paragraph (3)

Letter a

With this rating, the Bank or Sharia Division has strong financial resources capable of supporting the business expansion plan and risk control in the event of significant changes in the banking industry.

Letter b

With this rating, the Bank or Sharia Division has adequate financial resources to support the business expansion plan and risk control in the event of significant changes in the banking industry.

Letter c

With this rating, the Bank or Sharia Division has financial resources to support the business expansion plan, albeit deemed inadequate for risk control in the event of policy errors and significant changes in the banking industry.

Letter d

With this rating, the Bank or Sharia Division is experiencing financial difficulties that could potentially endanger its survival.

Letter e

With this rating, the Bank or Sharia Division is experiencing financial difficulties endangering its survival and is beyond rescue.

Article 9

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

This rating means that the Bank or Sharia Division is able to maintain control over business in the event of any significant change in the banking industry.

Letter b

Minor weaknesses in this letter may comprise administrative and operational weaknesses that do not significantly influence the condition of the Bank or Sharia Division.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

## Article 12

### Paragraph (1)

Bank Indonesia may request the Board of Directors, Board of Commissioners and/or Shareholders to submit an action plan if the Bank Rating result shows that one or more of the rating factors have been awarded rating 4 and/or rating C.

### Paragraph (2)

Any action plan that is submitted shall be treated as a commitment of the bank toward Bank Indonesia.

## Article 13

### Paragraph (1)

The action plan progress report submitted by the bank shall include but not be limited to evidence of implementation and relevant supporting documents.

### Paragraph (2)

Self-explanatory.

## Article 14

Self-explanatory.

## Article 15

Rating of a foreign bank head office shall be conducted by an international rating agency, including but not limited to Standard & Poors, Moody's and Fitch.

## Article 16

Self-explanatory.

## Article 17

Self-explanatory.

## Article 18

The provisions in this paragraph are intended for banks to prepare themselves for Bank Rating before the Bank Rating system pursuant to this Bank Indonesia Regulation becomes effective.

Article 19 ...

Article 19

Self-explanatory.

Article 20

Self-explanatory.

Article 21

Self-explanatory.

Article 22

Self-explanatory.